

Iceland: Bank bailout and corruption scandals fuel protests

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Protests continue to mount in Iceland against the government's bank bailout at the expense of working people. On 13 August, 3,000 gathered outside the Icelandic parliament in Reykjavik, the largest number since mass demonstrations toppled the former conservative-led government of Geir Haarde in January.

The protesters' anger was directed primarily at the proposed agreement for the resolution of the IceSave dispute, which will see the Icelandic state compelled to meet the cost for the reimbursement of depositors from a number of European countries who placed funds in the Internet operations of Landsbanki. The agreement has been debated in parliament on various occasions over the past month, with indications being that the government will struggle to find a majority willing to back the deal.

The agreement was the product of negotiations between officials from Iceland, Britain and the Netherlands that lasted several months. Under its terms, Iceland will borrow €5.5 billion from the two countries to help fund the costs of the bill at an annual interest rate of 5.5 percent. The sum is equivalent to over half of Iceland's GDP. The amount Iceland is being asked to repay is greater as a percentage of GDP than Germany was compelled to pay by the Versailles treaty after World War I.

Anger has been fuelled by the widespread perception that the agreement has been forced upon Iceland by the European powers, with the IMF also indicating that the remainder of its €2.1 billion loan deal with Reykjavik is conditional on the passage of the IceSave bill. The bill must still pass its second and third readings, with the parliamentary finance committee having agreed on several amendments to the proposal last weekend.

Attempting to appease public anger, Prime Minister Johanna Sigurðardóttir has made statements suggesting that she fully understands the mounting opposition. In the *Financial Times* of August 14 she wrote, "Icelanders, who do not feel responsible for the global banking crisis, are willing to make sacrifices to secure normal relations and

trade with the world. But they are angry at having to take on the burden of compensation for the IceSave savings accounts of Landsbanki—a failed, privately owned, commercial bank, which attracted hundreds of thousands of UK and Dutch savers with high interest rates."

Notwithstanding such posturing, her government is preparing to fully compensate the speculative, and in some cases outright criminal practices of these private banks, at the expense of the Icelandic population.

On August 14, the government announced plans that finalise the terms for the recapitalisation of two of the three failed banks, Kaupthing and Islandsbanki (formerly Glittnir). Kaupthing will be recapitalised with 72 billion kronur (€400 million) and Islandsbanki will receive 65 billion kronur (€360 million) of tier 1 capital. These sums will ensure that the banks can recommence their speculative operations at the expense of the taxpayer. Finance Minister and Left Green Leader Steingrímur Sigfússon declared, "The capitalisation of Islandsbanki and New Kaupthing represents another step in the re-establishment of a stable banking system for Iceland."

Sigfússon and the Left Greens have played a critical role in providing a left cover for the implementation of the coalition's right-wing agenda. As well as working to recapitalise the banks, they have collaborated in moves by the government to apply for European Union membership, in spite of their official anti-EU stance. Reflecting the growing hostility of the population to the EU's demands for austerity measures, figures suggest that only a third of Icelanders now support EU membership, down from over 40 percent earlier in the year.

The Left Greens agreed fully with the "stability pact" announced between trade unions, employers and the government in June. The agreement, which submits entirely to the demands of the IMF and international finance capital, will see public spending cuts of 70 billion kronur (€390 million) over three years, as well as income tax hikes and increased charges on everyday items.

The IMF is continuing to refuse to provide the second

instalment of its loan to Reykjavik. While refraining from overt criticism of the government, it has made clear that further inroads must be made into public spending and that the capital controls to defend the kronur must be lifted as soon as possible.

The central bank on August 5 revealed its plans to lift capital controls in stages, beginning November 1. According to estimations, there are funds worth €1.7 billion that belong to investors who are keen to remove their money from Iceland as soon as possible. The consequences of such a step for the kronur would be severe, with ordinary people seeing the prices for everyday items rise as the currency plummets.

Driven by the government's policies, public anger is being heightened by the ongoing exposure of the criminality of the financial elite. Earlier this month, documents emerged on the Internet uncovering the extent to which Kaupthing's loans had been directed to its own employees. The bank, which received a government bailout worth 5 percent of GDP prior to its collapse last October, made over 200 loans between €45 million and €1.25 billion, to individuals either employed by or with close links to the bank. These loans, which were often not backed by assets, were then used to buy back shares in Kaupthing.

The bank applied for an injunction to prevent one of Iceland's main broadcasters, RÚV, from revealing this information on its main evening news programme on August 1. This did little to hinder the spread of the details, but encouraged widespread criticism from politicians and newspapers. In a statement indicating its intention not to comply entirely with the court order, RÚV declared, "The injunction was ordered by the Reykjavík District Commissioner, one Rúnar Guðjónsson. As it happens, the son of the Reykjavík District Commissioner, Guðjón Rúnarsson, is head of the Icelandic Financial Services Association and one of the top spokesmen for the failed banks. Among other things, he has fought to have the state's Housing Financing Fund [which supplies the general public with affordable mortgages] abolished so that the banks could have exclusive dibs on the mortgage market."

The revelations regarding Kaupthing prompted Eva Joly, who is responsible for investigations into the circumstances surrounding the failed banks, to call for cooperation with Britain. The British Serious Fraud Office (SFO) has indicated its willingness to aid in the investigations, an indication that UK-based firms could be implicated.

Joly has come out in recent weeks to criticise other European powers for the situation in Iceland, suggesting that Britain and the Netherlands in particular were negligent in their regulation of branches of Kaupthing and Landsbanki based in their countries. Britain's use of anti-terrorism laws against the Icelandic government and Landsbanki last

October has continued to stoke resentment.

With the government making it clear that it will bail out the financial elite in spite of its corruption and criminality, the anger expressed by the population through recent protests is entirely legitimate. However, the leadership of the protest movement does not offer a viable perspective for working people seeking a way out of the present crisis.

The most recent protest was organized by a group called InDefence, formed last October to oppose the use of terrorist legislation by the British government against Iceland. At that time, the group focused its efforts on defending Iceland's reputation in the international community, calling for a so-called "normalization" of international relations.

A statement by the group announcing the latest protest called for "a fair IceSave agreement that Iceland can afford to pay." The group reportedly enjoys links with the opposition Progressive Party, with current party leader Sigmundur Davíð Gunnlaugsson playing a role in the group's formation before he was elected to parliament in April's election. InDefence have also aided Kaupthing by hiring lawyers for the bank to examine the possibility of launching court action against the British government over its move last October to freeze the assets of Kaupthing's subsidiary, Singer and Friedlander.

While the group is calling for "a fair IceSave agreement," the reality for ordinary working people is that they are being asked to bail out the financial elite. The IceSave deal forms only a part of this, alongside the recapitalisation of the banks and the onslaught launched on public spending at the insistence of the IMF. Rather than opposing the supposed "excess" of this or that measure, the working class must reject the claim that they should be made to pay for a crisis not of their making. This can only be achieved through a decisive break from all of the established political parties, including the Left Greens, all of whom have shown themselves to be defenders of the ruling clique.



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